

MERGER & ACQUISITION PLAYBOOK

Financial institution acquisitions are complex and require adequate time, effort, and resources to ensure a positive outcome. Successful transactions begin with identifying and anticipating the opportunities and challenges that lie ahead—most importantly, retaining customers during the transition.

TRADITIONAL ACQUISITIONS.

The merging of two or more organizations is complex and fraught with peril. Successful mergers and acquisitions follow a structured and disciplined approach with clear strategic objectives, detailed implementation plans, and a focus on creating and capturing value—enabling the parties to avoid many of the typical failures that impair or destroy shareholder, customer/member, and employee value.

A Comprehensive Planning Resource.

Applying this level of process and discipline is easier said than done. The West Monroe Partners Merger & Acquisition Program Playbook features 265 pages of tools, templates, and proven methodologies to assist banks and credit unions in developing the structure and discipline to identify, execute, and integrate their deals more effectively—from inception to close and beyond.

SEVEN STAGES OF A MERGER & ACQUISITION.

The M&A Playbook provides details for seven stages of a traditional merger or acquisition.

1. Strategy Development & Readiness Assessment

Successful M&A transactions have clearly defined business values and objectives that can be communicated to all stakeholders, embedded in project plans, measured, and tracked.

These objectives typically reflect the shareholder value to be gained through the acquisition, and they provide overarching guidance for executing all M&A activities and defining key metrics used to assess success during each stage of the process.

The M&A Playbook describes several common strategies:

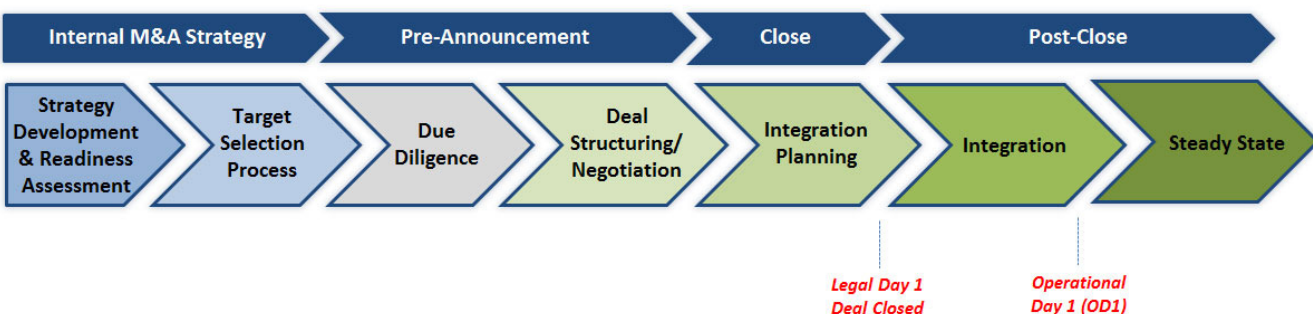
- ◆ Expand into new markets
- ◆ Increase share in existing markets
- ◆ Acquire new product portfolios and expertise
- ◆ Expand/enhance an existing product portfolio and build depth in an area of current expertise
- ◆ Increase size to achieve economies of scale

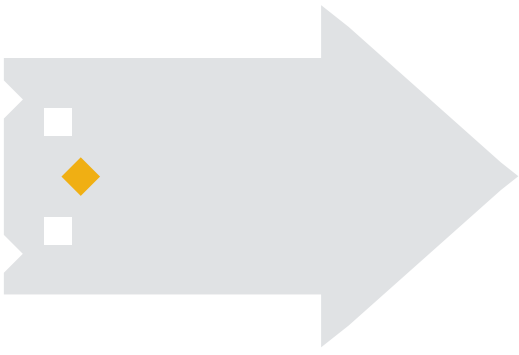
2. Target Selection Process

The objective of the target selection stage is to develop a short list of potential target institutions that best meet the acquiring institution's business objectives and can create value for the shareholders. The M&A Playbook provides guidance for key steps in this process:

- ◆ Define selection criteria
- ◆ Develop the screening process and narrow the field
- ◆ Develop and execute the approach strategy

Traditional Acquisition





3. Due Diligence

The objective of the due diligence stage is to engage potential targets in an effort to assess their interest and to gain greater insight into their potential for supporting the acquiring institution's business objectives.

The M&A Playbook examines key elements of the due diligence process:

- ◆ Due diligence team formation
- ◆ Strategic alignment evaluation
- ◆ Due diligence assessment
- ◆ Valuation and deal structuring
- ◆ Integration budget establishment
- ◆ Complete regulatory filings

4. Deal Structuring and Negotiation

The objective of this stage is to structure a deal that has a high likelihood of creating value for both institutions and achieving the goals set out in the strategy stage. The M&A Playbook details key steps of this process:

- ◆ Structuring the transaction
- ◆ Conducting the negotiation
- ◆ Transaction execution
- ◆ Member / shareholder approval

5. Integration Planning

During the Integration Planning stage, each functional area anticipates and plans and prepares for the steps required to merge both institutions into a single entity. In addition, the organizations identify all interdependencies and incorporate these into the overall integration program plan. Data is particularly critical to completing the conversion. Given the variety and quantity of data needed to complete this stage, it is best to identify data needs and communicate data requests as early as possible in the conversion planning process. Most importantly, the institutions should consider and document any potential impact to customers.

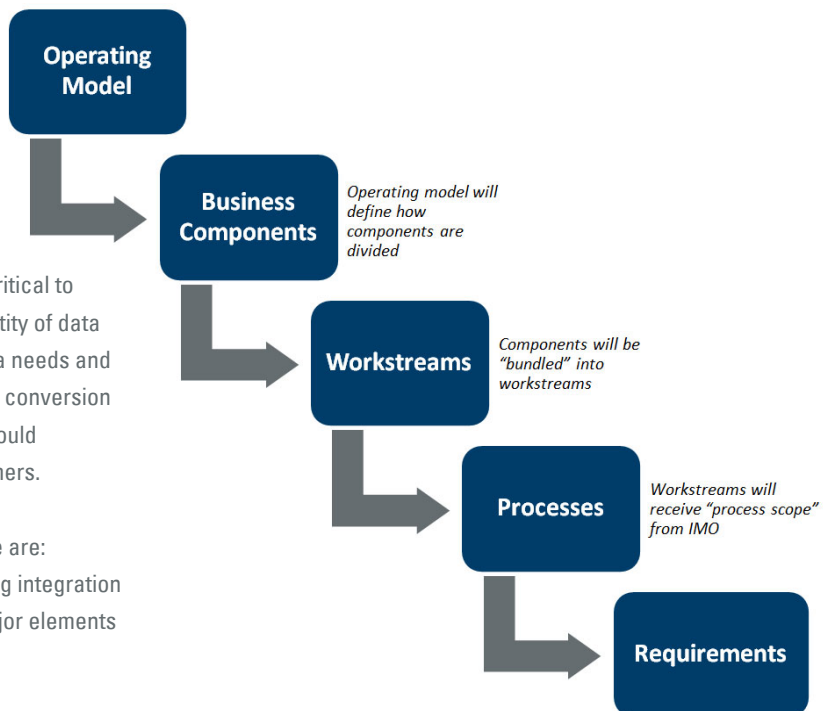
These key objectives of the Integration Planning phase are:

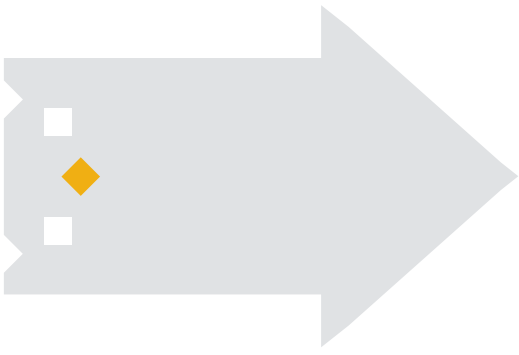
- ◆ Establish a detailed plan and timeline for completing integration planning. The integration plan should reflect all major elements of the combined institution.

- ◆ Establish an integration management office (IMO) to lead day-to-day execution of integration planning activities.
- ◆ Define the proposed future-state operating model for the post-integration (combined) business entity. The future-state plan should emphasize two areas: reducing operating expenses and optimizing operational efficiency resulting from the integration.
- ◆ Establish an integration risk-mitigation plan that addresses areas of the integration process that have the potential to affect the success of the integration—particularly business operating results or the timeline for completing the integration.
- ◆ Maintain close alignment with the regulatory filing process to ensure that planning, analysis, and design activity can be completed prior to legal "day one" and that execution activities can commence as quickly as feasible after legal "day one."

TARGET OPERATING MODEL

The Target Operating Model will provide the Integration Planning Team with baseline structure and timing that plans will be built around, provides a way to link the workstreams to business processes and ultimately requirements. Requirements developed by the planning team will influence the future operating model and the merged institution





BANK & CREDIT UNION SOLUTIONS

6. Integration

While the focus of the Integration phase is typically on the “Go Live weekend,” a successful integration is the product of several steps: detailed requirements, accurate data/product mapping, controlled system/process development, comprehensive testing, and simulation of integration activities.

The M&A Playbook describes these conversion steps in more detail:

- ◆ Implementation kickoff
- ◆ Detailed mapping & requirements
- ◆ Development conversions & interfaces
- ◆ Testing & quality assurance
- ◆ Integration training
- ◆ Marketing and communications
- ◆ Organizational readiness and go-live weekend

7. Steady State

The objective of the Steady State phase is to maintain stabilized business operations while capturing value created by the integration. This is a critical time to maintain focus in order to deliver the revenue-enhancing or cost-reduction initiatives designed to capture the primary synergies associated with the integration. This means eliminating redundancies to reduce costs, focusing relentlessly on customer/member experience, and standardizing processes based on leading practices.

Revenue synergies come from cross-selling opportunities, new product offerings, and improved channel capabilities. Common initiatives to capture revenue synergies covered in the playbook include:

- ◆ Develop cross-selling marketing campaigns.
- ◆ Conduct customer/member profitability analyses and migrate the least profitable customers/members to lower-cost, higher-revenue behaviors.
- ◆ Implement clear fee waiver guidelines and controls.

Cost synergies result from improved vendor pricing, streamlined organization structure, rationalized infrastructure, and improved processes. The M&A Playbook examines key planning requirements following the merger of two institutions:

- ◆ Rationalize physical infrastructure
- ◆ Standardize processes
- ◆ Finalize integrated organization design
- ◆ Deploy new performance metrics
- ◆ Renegotiate vendor contracts and aggressively manage demand
- ◆ Develop a common products and services strategy

MAXIMIZE YOUR OPPORTUNITY. CHOOSE THE RIGHT PARTNER.

The ideal partner is one who has completed the process before, preferably multiple times. West Monroe’s Banking practice applies substantial experience gained through hundreds of transactions and integration programs, helping the acquiring bank understand and plan for the critical steps involved, assuring the transaction will deliver the anticipated benefits. Our consultants, most of which are former banking industry professionals, are experienced in every step of the M&A cycle.

To learn more, please contact West Monroe Partners today.

- West Monroe Partners is an international, full-service business and technology consulting firm focused on guiding organizations through projects that fundamentally transform their business. With the experience to create the most ambitious visions as well as the skills to implement the smallest details
- ◆ of our clients’ most critical projects, West Monroe Partners is a proven provider of growth and efficiency to large enterprises, as well as more nimble middle-market organizations. Our more than 250 consulting professionals drive better business results by harnessing our collective experience across a range of industries, serving clients out of offices across the United States and Canada.
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